



*Leading Tennessee Home*

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# **NEW START PROGRAM REPORT**

## **2001- 2006**

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## Introduction and Program Definition

The initial New Start 0% Mortgage program was implemented in July 1, 2001. The program was designed to aid very low-income Tennessee families achieve the American Dream of Homeownership, with the help of not-for-profit partners, and promote the construction of new houses.

Initially, the maximum household income limit could not exceed \$24,950, which was 50% of the statewide median income. The maximum income limit was later adjusted to \$25,350. The maximum loan amount was established at the lesser of 75% of appraised value or \$60,000.

To improve the New Start Program and increase its utilization, THDA increased the maximum income limit and the maximum loan amount. THDA's Board of Directors, in its November 2005 meeting, approved extending the New Start program through December 31, 2006, and allocated an additional \$5 million to the program. Effective January 23, 2006, the New Start Program became a two-tiered program.

In Tier I, the maximum household income limit increased to \$30,720, which is 60% of the statewide median income. The interest rate for the Tier I Program is 0%. The maximum loan amount cannot exceed 75% of the appraised value. The home must be newly constructed and not previously occupied.

In Tier II, the maximum household income cannot exceed \$35,840, which is 70% of the statewide median income. The interest rate for the Tier II program will be one half (1/2) of THDA's current interest rate for the the Great Rate Program. Currently, the interest rate on our Great Rate Program is 5.4%; therefore, the interest rate on the Tier II program would be 2.7%. The Tier II interest rate will fluctuate with changes in the interest rate for Great Rate Program. The maximum loan amount cannot exceed 75% of the appraised value. As in the Tier I, the home must be *newly constructed*, and the loan is for first-time homebuyers who have not owned their principle residence within the last three years.

## Program Highlights for 2001-2006

### Property Characteristics

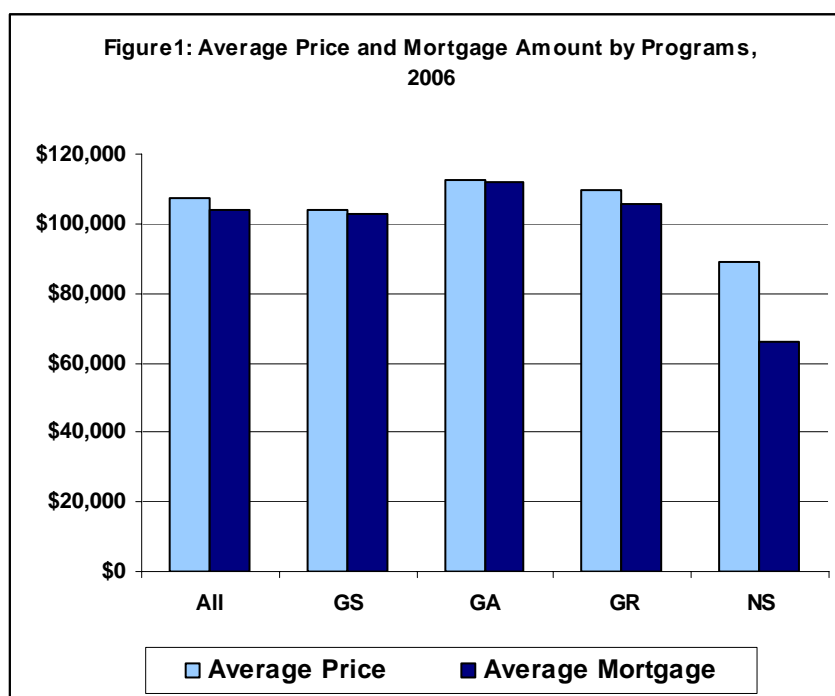
Since the inception of the program, THDA has allocated over \$14 million to it and assisted 263 low-income families achieve their American Dream, as of Calendar Year 2006 (see Table1). In Calendar Year 2006, both total number of loans and total loan dollars increased considerably, almost 80% and over 127%, respectively, compared to 2005 calendar year. Only three of 77 loans in 2006 were Tier II loans

**Table 1: Distribution of New Start Loans (Number, Loan Total and Average Loan Amount), 2001-2006**

Year	Number	Loan Dollars	Average Loan Dollar
2001	35	\$1,470,444	\$42,013
2002	34	\$1,664,369	\$48,952
2003	32	\$1,508,408	\$47,138
2004	42	\$2,074,986	\$49,404
2005	43	\$2,240,206	\$52,098
2006	77	\$5,098,581	\$66,215
<b>TOTAL</b>	<b>263</b>	<b>\$14,056,994</b>	<b>\$53,449</b>

Compared to the other loan products THDA offers (Great Start, Great Advantage or Great Rate), in the New Start program there is a considerable difference between average acquisition cost and average loan dollars. The explanation for this comes from the fact that those homes in New Start Program are built by non-profits

and some of the materials used in construction are donations. Additionally, owners are required to contribute “sweat equity.” Figure 1 shows the situation in Calendar Year 2006 as an example.



### Homebuyer Characteristics

Borrowers in New Start program tend to be older than the borrowers in our other programs. For example in year 2006, the average age of borrowers in all programs (GS, GA, GR, NS) was 31 while in the New Start Program, it was 37, and only 25% of those borrowers were younger than 30 (see Table2).

**Table 2. Distribution of New Start Loans by Age of Borrower, 2001-2006**

	2001	2002	2003	2004	2005	2006
<b>Mean</b>	39	34	43	40	41	38
<b>Median</b>	37	34	41	38	39	37
<b>less than 25</b>	2	5	0	0	2	4
<b>25-34</b>	12	15	7	15	17	31
<b>35-44</b>	14	11	13	15	8	26
<b>45-54</b>	3	3	8	6	9	10
<b>over 55</b>	4	0	4	6	7	6

Over the study period (2001-2006), the average income of New Start borrowers was \$20,042 and median income was \$20,945. There is an increasing trend in the average and median incomes of the borrowers in the program, although this might be just a reflection of income limit changes made to the program in various years. Even though THDA added the second tier to make the program available to families with some higher income levels, the second tier has not been utilized much so far. From January 2006 to end of calendar year

2006, there were only three loans made in this category. Therefore the program continues to serve very low income Tennessee families.

**Table 3: Distribution of New Start Loans by Income of the Borrower, 2001-2006**

	2001	2002	2003	2004	2005	2006	2001-2006
<b>Mean</b>	\$17,491	\$19,574	\$18,524	\$18,985	\$19,666	\$22,824	\$20,042
<b>Median</b>	\$17,818	\$19,694	\$19,784	\$20,598	\$22,102	\$24,288	\$20,945
<b>Less than \$10,000</b>	5.7%	2.9%	9.4%	9.5%	9.3%	2.6%	6.1%
<b>\$10,000-\$14,999</b>	17.1%	0.0%	12.5%	16.7%	11.6%	9.1%	11.0%
<b>\$15,000-\$19,999</b>	51.4%	47.1%	31.3%	16.7%	14.0%	18.2%	27.0%
<b>\$20,000-\$24,999</b>	25.7%	50.0%	43.8%	54.8%	60.5%	27.3%	41.8%
<b>\$25,000-\$29,999</b>	0.0%	0.0%	3.1%	2.4%	4.7%	36.4%	12.2%
<b>\$30,000 and over</b>	0.0%	0.0%	0.0%	0.0%	0.0%	6.5%	1.9%

The overwhelming number of borrowers in the New Start program were females with child(ren). If we include single females also in this category, it is clear that females are the primary beneficiaries of this loan program (Tables 4 and 5).

**Table 4: Distribution of New Start Loans by Family Status, 2001-2006**

	2001	2002	2003	2004	2005	2006	2001-2006
<b>Female with Child</b>	60.0%	79.4%	43.8%	54.8%	51.2%	58.4%	57.8%
<b>Male with Child</b>	0.0%	2.9%	0.0%	7.1%	0.0%	3.9%	2.7%
<b>Married Couple</b>	5.7%	0.0%	3.1%	0.0%	4.7%	5.2%	3.4%
<b>Single Female</b>	8.6%	5.9%	21.9%	16.7%	20.9%	9.1%	13.3%
<b>Single Male</b>	0.0%	0.0%	6.3%	4.8%	2.3%	3.9%	3.0%
<b>Married with Child</b>	5.7%	11.8%	9.4%	14.3%	20.9%	13.0%	12.9%
<b>Other</b>	20.0%	0.0%	15.6%	2.4%	0.0%	6.5%	6.8%

**Table 5: Distribution of New Start Loans by Gender, 2001-2006**

	2001	2002	2003	2004	2005	2006	2001-2006
<b>Female</b>	88.6%	88.2%	81.3%	73.8%	76.7%	75.3%	79.5%
<b>Male</b>	11.4%	11.8%	18.8%	26.2%	23.3%	24.7%	20.5%

Following Table 6 shows racial distribution of the New Start borrowers. According to the Table, there is quite an equal representation of white and African/American races among the New Start borrowers. This brings us to the issue of “how borrowers in the program learn about it.” Compared to other mortgage programs (GS, GA, and GR) New Start borrowers mostly learn about the program offering through the “other” sources of information. This might include non-profit organizations, churches, and family and friends, since it is offered through only non-profits. While the contribution of lenders increases, the real estate agents’ share on distributing the information is declining (see Table 7).

**Table 6: Distribution of New Start Borrowers by Race, 2001-2006**

	2001	2002	2003	2004	2005	2006	2001-2006
White	34.3%	26.5%	43.8%	52.4%	51.2%	53.2%	45.6%
African/American	40.0%	70.6%	56.3%	42.9%	48.8%	37.7%	47.1%
Other	25.7%	2.9%	0.0%	4.8%	0.0%	9.1%	7.2%
Hispanic	0.0%	0.0%	0.0%	0.0%	2.3%	1.3%	0.0%

**Table 7: Referral Sources of New Start Program, 2001-2006**

	2001	2002	2003	2004	2005	2006	2001-2006
Newspaper	0.0%	11.8%	6.3%	7.1%	7.0%	1.3%	4.9%
Radio	0.0%	0.0%	0.0%	0.0%	0.0%	3.9%	1.1%
Builder	5.7%	14.7%	9.4%	9.5%	9.3%	6.5%	8.7%
Real Estate Agent	54.3%	23.5%	25.0%	11.9%	9.3%	3.9%	17.9%
Lender	2.9%	17.6%	21.9%	9.5%	27.9%	27.3%	19.4%
Other	37.1%	32.4%	37.5%	61.9%	46.5%	48.1%	45.2%
Section 8 FSS Program	0.0%	0.0%	0.0%	0.0%	0.0%	7.8%	2.3%
State Employee e-mail	0.0%	0.0%	0.0%	0.0%	0.0%	1.3%	0.4%

### **Geographic Characteristics**

New Start loans were made in only twenty-one out of ninety-five counties. Nearly one half of total loans in that time period were in only three counties (Davidson, Hamilton, and Shelby Counties). Davidson County received the largest share with 26% of all loans in the overall study period (2001-2006) in terms of the number of loans, followed by Hamilton, Shelby and Knox Counties with 17%, 9%, and 8%, respectively. The same order continues when looking at total loan dollars by counties. Among the MSAs, Nashville received the highest share of the New Start loans with 28% of all the New Start loans made from 2001 to 2006, while Morristown had the least number of loans in the same period. Annual fluctuations in the number of loans in MSAs might also be related to the changing definition of MSAs after 2003.

**Table 8: Distribution of New Start Loans by County, 2001-2006**

	2001		2002		2003		2004		2005		2006		2001-2006	
	#	\$	#	\$	#	\$	#	\$	#	\$	#	\$	#	\$
<b>Bedford</b>	--	--	1	\$40,000	1	\$40,000	3	\$120,000	1	\$39,833	2	\$67,980	8	\$307,813
<b>Blount</b>	3	\$132,000	3	\$132,000	2	\$88,000	--	--	1	\$56,576	6	\$457,964	15	\$866,540
<b>Bradley</b>	--	--	--	--	1	\$47,288	1	\$48,500	--	--	1	\$48,298	3	\$144,086
<b>Carter</b>	--	--	--	--	2	\$96,495	1	\$57,375	--	--	1	\$86,250	4	\$240,120
<b>Cumberland</b>	2	\$88,000	--	--	--	--	--	--	--	--	4	\$270,600	6	\$358,600
<b>Davidson</b>	4	\$182,000	14	\$804,200	6	\$359,600	10	\$600,000	12	\$677,500	23	\$1,797,522	69	\$4,420,822
<b>Greene</b>	--	--	--	--	--	--	3	\$134,625	--	--	1	\$75,000	4	\$209,625
<b>Hamblen</b>	--	--	--	--	1	\$41,320	--	--	1	\$60,000	--	--	2	\$101,320
<b>Hamilton</b>	5	\$224,489	6	\$270,490	6	\$271,860	6	\$269,400	6	\$306,850	7	\$356,300	36	\$1,699,389
<b>Hawkins</b>	--	--	--	--	1	\$31,680	1	\$22,000	1	\$60,000	--	--	3	\$113,680
<b>Knox</b>	12	\$470,926	--	--	--	--	1	\$41,500	1	\$50,000	8	\$462,106	22	\$1,024,532
<b>Loudon</b>	--	--	4	\$201,000	1	\$50,500	3	\$151,500	1	\$52,500	3	\$197,937	12	\$653,437
<b>Monroe</b>	--	--	--	--	--	--	1	\$39,000	--	--	--	--	1	\$39,000
<b>Morgan</b>	--	--	1	\$37,000	--	--	--	--	3	\$144,199	1	\$42,480	5	\$223,679
<b>Putnam</b>	--	--	1	\$16,850	3	\$135,499	3	\$146,586	3	\$152,788	--	--	10	\$451,723
<b>Rutherford</b>	--	--	--	--	--	--	--	--	1	\$55,000	--	--	1	\$55,000
<b>Scott</b>	--	--	3	\$122,000	1	\$41,500	3	\$117,000	4	\$183,960	3	\$139,752	14	\$604,212
<b>Shelby</b>	7	\$292,163	1	\$40,829	4	\$174,800	1	\$40,000	5	\$221,000	6	\$297,050	24	\$1,065,842
<b>Sullivan</b>	--	--	--	--	2	\$87,367	--	--	1	\$60,000	2	\$104,668	5	\$252,035
<b>Washington</b>	--	--	--	--	--	--	4	\$240,000	2	\$120,000	9	\$694,675	15	\$1,054,675
<b>Wilson</b>	2	\$80,866	--	--	1	\$42,500	1	\$47,500	--	--	--	--	4	\$170,866
<b>STATE</b>	35	\$1,470,444	34	\$1,664,369	32	\$1,508,408	42	\$2,074,986	43	\$2,240,206	77	\$5,098,581	263	\$14,056,994



**Table 9: Distribution of New Start Loans by MSAs, 2001-2006**

	2001	2002	2003	2004	2005	2006	2001-2006
Chattanooga	14.3%	17.6%	18.8%	14.3%	14.0%	9.1%	13.7%
Cleveland	0.0%	0.0%	3.1%	2.4%	0.0%	1.3%	1.1%
Johnson City	0.0%	0.0%	6.3%	11.9%	4.7%	13.0%	7.2%
Kingsport-Bristol	0.0%	0.0%	9.4%	2.4%	4.7%	2.6%	3.0%
Knoxville	42.9%	20.6%	9.4%	9.5%	7.0%	22.1%	18.6%
Memphis	20.0%	2.9%	12.5%	2.4%	11.6%	7.8%	9.1%
Morristown	0.0%	0.0%	3.1%	0.0%	2.3%	0.0%	0.8%
Nashville	17.1%	41.2%	21.9%	26.2%	30.2%	29.9%	28.1%
Non-MSA	5.7%	17.6%	15.6%	31.0%	25.6%	14.3%	18.3%

**Program Partners Who Originate and Service the New Start Loans**

New Start Loans are originated and serviced by non-profit partners. There are 34 active non-profit partners. In 2001-2006 period, 21 of those 34 partners participated and originated/serviced new start loans (see Table 10). During that time Nashville Habitat for Humanity was the most active non-profit partner, originating 67 New Start loans (25% of total New Start Loans originated in that time period). Chattanooga Habitat for Humanity, Eastern Eight Community Development Corp. and Memphis chapter of Habitat for Humanity follow Nashville in originating New Start loans in overall study period (14%, 11%, and 9% of total, respectively). As Map 1 also reveals most of the New Start Loans were originated in Eastern TN. This is because 13 of 21 non-profit partners originated New Start loans in that period service in Eastern region of the State.



**Table 10: Distribution of New Start Loans by Non-Profit Originators/Servicers, 2001-2006**

	<b>Grand Division</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2001-2006</b>
Appalachia Habitat for Humanity	East	0%	12%	3%	7%	16%	5%	7%
Blount Co. Habitat for Humanity	East	9%	9%	6%	0%	2%	4%	5%
Cattanooga Habitat for Humanity	East	14%	18%	19%	14%	14%	9%	14%
Creative Compassion Inc	East	0%	3%	0%	0%	0%	5%	2%
Cumberland Co. Habitat for Humanity	East	6%	0%	0%	0%	0%	0%	1%
Eastern Eight Com. Dev. Corp.	East	0%	0%	13%	21%	9%	14%	11%
Foothills Com. Dev. Corp.	East	0%	0%	0%	0%	0%	4%	1%
HFH of Cleveland, Inc.	East	0%	0%	3%	2%	0%	1%	1%
Holston Habitat for Humanity	East	0%	0%	3%	0%	0%	3%	1%
Knox Habitat for Humanity, Inc.	East	34%	0%	0%	2%	2%	10%	8%
Lakeway Area Habitat for Humanity	East	0%	0%	3%	0%	2%	0%	1%
Loudon Co. Habitat for Humanity	East	0%	12%	3%	7%	2%	4%	5%
Monroe Co. Habitat for Humanity	East	0%	0%	0%	2%	0%	0%	0%
Affordable Housing Resources	Middle	0%	0%	0%	2%	0%	0%	0%
Bedford Builds Habitat	Middle	0%	3%	3%	7%	2%	3%	3%
Down Syndrome Assoc. of MidTN	Middle	0%	0%	0%	0%	2%	0%	0%
Habitat for Humanity Wilson County	Middle	6%	0%	3%	2%	0%	0%	2%
Nashville Habitat for Humanity	Middle	11%	41%	19%	21%	26%	30%	25%
Putnam Co. Habitat for Humanity	Middle	0%	0%	9%	7%	7%	0%	3%
Rutherford Co. Habitat for Humanity	Middle	0%	0%	0%	0%	2%	0%	0%
Habitat for Humanity-Memphis	West	20%	3%	13%	2%	12%	8%	9%